

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ingham County Medical Care Facility	County Ingham
Audit Date December 31, 2004	Opinion Date March 23, 2005	Date Accountant Report Submitted to State: August 23, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

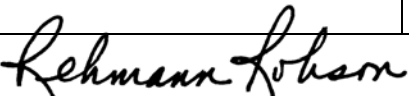
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**INGHAM COUNTY MEDICAL CARE
FACILITY
Okemos, Michigan**

FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2004**



REHMANN ROBSON

Certified Public Accountants

INGHAM COUNTY MEDICAL CARE FACILITY

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 23, 2005

Family Independence Agency Board
Ingham County Medical Care Facility
Okemos, Michigan

We have audited the accompanying financial statements of the ***Ingham County Medical Care Facility, an enterprise fund of Ingham County, Michigan***, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Ingham County Medical Care Facility management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Ingham County Medical Care Facility and do not purport to, and do not, present fairly the financial position of Ingham County, Michigan, as of December 31, 2004, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ingham County Medical Care Facility as of December 31, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Ingham County Medical Care Facility. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

FINANCIAL STATEMENTS

INGHAM COUNTY MEDICAL CARE FACILITY

Statement of Net Assets

December 31, 2004

Assets

Current assets

Cash and cash equivalents	\$ 2,922,307
Patient receivables, net	1,280,320
Interest receivable	14,000
Due from other funds of Ingham County	55,685
Inventory	9,309
Prepaid items	15,997
Total current assets	<u>4,297,618</u>

Restricted assets

Cash and cash equivalents	7,354,943
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Capital assets, net

4,491,191

Total assets

16,143,752

Liabilities

Current liabilities

Accounts payable	273,747
Accrued expenses	362,614
Compensated absences	240,226
Due to other funds of Ingham County	129,403
Total current liabilities	<u>1,005,990</u>

Current liabilities payable from restricted assets

Patient trust liability	<u>15,053</u>
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Noncurrent liabilities

Worker's compensation claims	100,000
Provision for contractual losses	125,000
Advances from other funds of Ingham County	861,788
Total noncurrent liabilities	<u>1,086,788</u>

Total liabilities

2,107,831

Net assets

Investment in capital assets	4,491,191
Restricted	7,339,890
Unrestricted	2,204,840
Total net assets	<u>\$ 14,035,921</u>

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY MEDICAL CARE FACILITY

Statement of Revenues, Expenses and Changes in Fund Net Assets For the Year Ended December 31, 2004

Operating revenues

Net patient revenues	\$ 13,172,608
Other operating revenues	<u>4,759</u>
Total operating revenues	<u>13,177,367</u>

Operating expenses

Salaries	7,058,459
Other expenses	<u>5,507,299</u>
Total operating expenses	<u>12,565,758</u>
Operating income	<u>611,609</u>

Non-operating revenues (expenses)

Investment earnings	214,423
Proportionate share reimbursements	8,079,156
Intergovernmental transfer payments	(7,729,282)
Interest expense	(10,086)
Maintenance of effort payment	<u>(44,108)</u>
Total non-operating revenues	<u>510,103</u>

Net income	1,121,712
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Net assets, beginning of year	<u>12,914,209</u>
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Net assets, end of year	<u><u>\$ 14,035,921</u></u>
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The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY MEDICAL CARE FACILITY

Statement of Cash Flows For the Year Ended December 31, 2004

Cash flows from operating activities:

Receipts from patients and users	\$ 12,745,097
Payments to suppliers	(5,059,263)
Payments to employees	(6,960,292)
Net cash provided by operating activities	<u>725,542</u>

Cash flows from noncapital financing activities

Proportionate share reimbursement	8,079,156
Intergovernmental transfer payment	(7,729,282)
Maintenance of effort payment	(44,108)
Net cash provided by noncapital financing activities	<u>305,766</u>

Cash flows from capital and related financing activities

Acquisition and construction of capital assets	(159,054)
Principal payment on advance from Ingham County	(73,768)
Interest paid on advance from Ingham County	(10,086)
Net cash used in capital and related financing activities	<u>(242,908)</u>

Cash flows from investing activities

Interest received	<u>216,723</u>
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Net increase in cash and cash equivalents

1,005,123

Cash and cash equivalents, beginning of year

9,272,127

Cash and cash equivalents, end of year

\$ 10,277,250

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 611,609
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	362,136
(Increase) decrease in assets:	
Receivables	(378,595)
Due from other funds	(47,201)
Inventory	2,527
Prepaid items	(4,519)
Increase (decrease) in liabilities:	
Accounts payable	88,195
Accrued expenses	89,597
Compensated absences	8,570
Due to other funds	(6,474)
Patient trust liability	(303)
Net cash provided by operating activities	<u><u>\$ 725,542</u></u>

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY MEDICAL CARE FACILITY

Okemos, Michigan

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ingham County Medical Care Facility (ICMCF) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the ICMCF's accounting policies are described below.

A. Financial Reporting Entity

The ICMCF is an enterprise fund of Ingham County, Michigan (the "County") that provides long-term skilled care to residents of the County. A three-member board is responsible for establishing policies and oversight. The County appoints two board members and the State of Michigan appoints the third. An administrator manages the ICMCF's daily operations.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The ICMCF uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position and the changes in financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The ICMCF is operated as an enterprise fund, a proprietary fund type, which is used to account for operations that are financed and operated in a manner similar to private business. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The ICMCF has elected not to follow subsequent private-sector guidance.

INGHAM COUNTY MEDICAL CARE FACILITY

Okemos, Michigan

Notes To Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the ICMCF are charges to patients for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Equity

1. Deposits

The ICMCF's cash and cash equivalents include cash on hand, demand deposits and deposits in the Ingham County Treasurer's cash management pool. The Treasurer's cash management pool has the general characteristics of a demand deposit in that deposits and withdrawals may be made at any time without prior notice or penalty.

State statutes authorize the ICMCF and the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, bankers acceptances and mutual funds composed of otherwise legal investments.

2. Receivables

Patient receivables are shown net of Medicaid advance payments and an allowance for uncollectible accounts. Approximately 78% of patient revenues are generated from services to patients covered by Medicare and Medicaid. Retroactive adjustments to the per diem rates established under those programs and by other third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

3. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between the ICMCF and Ingham County for goods provided or services rendered. Such transactions that are representative of lending/borrowing arrangements outstanding at year-end are referred to as "advances to/from other funds". All other outstanding balances between funds including the current portion of any "advances" are reported as "due to/from other funds" on the statement of net assets.

INGHAM COUNTY MEDICAL CARE FACILITY

Okemos, Michigan

Notes To Financial Statements

4. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. *Restricted Assets*

Certain assets are classified as restricted assets on the statement of net assets because their use is limited to specific purposes as mandated by the Ingham County Board of Commissioners, the State of Michigan or third parties. These purposes include capital acquisitions/improvements, donations and patient trust monies.

6. *Capital Assets*

Capital assets, which include property and equipment, are recorded at cost. Capital assets are defined by the ICMCF as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Donated property and equipment are recorded at their estimated fair value at the date of donation.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend their lives are charged to expense when incurred.

<u>Asset Category</u>	<u>Useful Life in Years</u>
Land improvements	5 to 40
Building	40
Equipment	5 to 20

7. *Compensated Absences*

ICMCF employees are granted paid time off (PTO) in varying amounts based on length of service and are permitted to accumulate such earned but unused leave time subject to certain limitations. Earned but unused benefits at year-end are recorded as a liability in accordance with GASB Statement #16.

INGHAM COUNTY MEDICAL CARE FACILITY
Okemos, Michigan

Notes To Financial Statements

8. *Patient Trust Liability*

The Michigan Department of Treasury requires facilities such as the ICMCF to administer and account for certain patient monies. Accordingly, the patient trust liability recorded in the statement of net assets represents those patient monies on deposit with the ICMCF at year-end.

9. *Net Assets*

Net assets are restricted as follows at December 31, 2004:

Donated funds	\$ 2,191
Depreciation fund	<u>7,337,699</u>
	<u>\$ 7,339,890</u>

2. DEPOSITS

At December 31, 2004, the carrying amount of the ICMCF's cash and cash equivalents were composed of the following:

	<u>Current</u> <u>Assets</u>	<u>Restricted</u> <u>Assets</u>	<u>Total</u>
On deposit with County	\$ 2,895,754	\$ 7,354,943	\$ 10,250,697
On deposit with bank	25,803	-	25,803
Cash on hand	<u>750</u>	<u>-</u>	<u>750</u>
Total deposits	<u>\$ 2,922,307</u>	<u>\$ 7,354,943</u>	<u>\$ 10,277,250</u>

The bank balance of the funds "on deposit with bank" as of December 31, 2004 was \$94,198, which was entirely covered by federal deposit insurance. The bank balance and federal deposit insurance coverage, if any, of the funds "on deposit with County" are not readily determinable inasmuch as those funds are deposited in the Ingham County Treasurer's cash management pool.

INGHAM COUNTY MEDICAL CARE FACILITY
Okemos, Michigan

Notes To Financial Statements

3. PATIENT RECEIVABLES

The details of patient accounts receivable are as follows at December 31, 2004:

Patient receivables	\$ 1,437,661
Deduct:	
Allowances for uncollectible accounts	(43,000)
Medicaid interim payments	<u>(114,341)</u>
Patient receivables, net	<u>\$ 1,280,320</u>

4. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 132,832	\$ -	\$ -	\$ 132,832
Construction in progress	-	159,054	-	159,054
Total capital assets, not being depreciated	<u>132,832</u>	<u>159,054</u>	<u>-</u>	<u>291,886</u>
Capital assets, being depreciated:				
Land improvements	326,133	-	-	326,133
Buildings	10,090,501	-	(417,465)	9,673,036
Equipment	1,512,856	-	(833,310)	679,546
Total capital assets being depreciated	<u>11,929,490</u>	<u>-</u>	<u>(1,250,775)</u>	<u>10,678,715</u>
Less accumulated depreciation for:				
Land improvements	(241,442)	(14,709)	-	(256,151)
Buildings	(5,893,261)	(302,197)	417,465	(5,777,993)
Equipment	(1,233,346)	(45,230)	833,310	(445,266)
Total accumulated depreciation	<u>(7,368,049)</u>	<u>(362,136)</u>	<u>1,250,775</u>	<u>(6,479,410)</u>
Total capital assets being depreciated, net	<u>4,561,441</u>	<u>(362,136)</u>	<u>-</u>	<u>4,199,305</u>
Capital assets, net	<u>\$ 4,694,273</u>	<u>\$ (203,082)</u>	<u>\$ -</u>	<u>\$ 4,491,191</u>

INGHAM COUNTY MEDICAL CARE FACILITY
Okemos, Michigan

Notes To Financial Statements

5. RISK MANAGEMENT

Through the County, the ICMCF is self-insured for workers' compensation claims up to \$300,000 per occurrence and insured for the amount of claims in excess of that limitation up to a maximum of \$5 million.

The change in the worker's compensation liability amount for the year ended December 31, 2004 is as follows:

	<u>2004</u>	<u>2003</u>
Claims liability at beginning of fiscal year	\$ 100,000	\$ 105,400
Claims and changes in estimates	95,476	15,105
Claim payments	<u>(95,476)</u>	<u>(20,505)</u>
Claims liability at end of year	<u>\$ 100,000</u>	<u>\$ 100,000</u>

Also through the County, the ICMCF participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property coverage. Under most circumstances, the maximum loss retention per occurrence is as follows:

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and automobile liability	\$150,000
Motor vehicle physical damage	\$ 16,000 per vehicle \$ 31,000 per occurrence
Property coverage	\$ 11,000

Further information and disclosures regarding risk management is provided in the County's comprehensive annual financial report.

6. MAINTENANCE OF EFFORT

Each month the ICMCF is billed by the State of Michigan for maintenance of effort in an amount equal to a specified rate times the number of Medicaid patient days approved by the State for that month.

INGHAM COUNTY MEDICAL CARE FACILITY
Okemos, Michigan

Notes To Financial Statements

7. CONTINGENT LIABILITIES

Amounts received or receivable from third-party payors, in particular Medicare and Medicaid, are subject to audit and adjustment by various intermediaries. The amount, if any, of such adjustments cannot be determined at this time although the ICMCF expects such amounts, if any, to be immaterial.

In 1978, the ICMCF received a federal grant under the Hill-Burton Act to help finance construction of the facility. A provision of the grant is that the facility provide free of charge care to qualifying individuals in a total cumulative amount equal to the original grant amount adjusted for inflation. Through December 31, 2004, the ICMCF has not yet satisfied the charitable care obligations of the Hill-Burton Act.

8. EMPLOYEE RETIREMENT SYSTEM

ICMCF employees participate, along with other Ingham County employees, in the Michigan Municipal Employees Retirement System. The plan is a multiple employer defined benefit plan, administered by the State of Michigan. During 2004, employer contributions of \$478,348 were made by the ICMCF in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002.

Further information regarding the Ingham County plan including detailed trend information is presented in the County's 2004 comprehensive annual financial report, which is available to the public.

INGHAM COUNTY MEDICAL CARE FACILITY
Okemos, Michigan

Notes To Financial Statements

9. ADVANCES PAYABLE TO INGHAM COUNTY

In 1996, ICMCF borrowed \$1.5 million from the County for a capital expansion and renovation project. The loan agreement provides for repayment of the advance over twenty years with interest at one percent (1%) per annum on the outstanding principal balance.

Repayment requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 73,767	\$ 9,356
2006	74,505	8,618
2007	75,250	7,873
2008	76,003	7,120
2009	76,763	6,360
2010-2014	395,482	20,133
2015-2016	<u>163,785</u>	<u>2,461</u>
Total	<u>\$ 935,555</u>	<u>\$ 61,921</u>

10. PROPORTIONATE SHARE REIMBURSEMENT AND INTERGOVERNMENTAL TRANSFER

During 2004, the ICMCF received Medicaid proportionate share reimbursements of \$8,079,156 and made intergovernmental transfer payments of \$7,729,282 to the Michigan Family Independence Agency. As a result of this transaction, the Medical Care Facility Enterprise Fund received net intergovernmental transfers in the amount of \$349,874.

The intergovernmental transfer is a result of the State of Michigan receiving Federal monies for the Medicaid program which is distributed to Class III nursing facilities owned by local governments in proportion to each facility's share of Medicaid days in a given cost reporting period.

INGHAM COUNTY MEDICAL CARE FACILITY
Okemos, Michigan

Notes To Financial Statements

11. COMPENSATED ABSENCES

Changes in compensated absences for the year ended December 31, 2004, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 231,656</u>	<u>\$ 462,800</u>	<u>\$ 454,230</u>	<u>\$ 240,226</u>	<u>\$ 240,226</u>

12. COMMITMENTS

The ICMCF is obligated for a construction contract related to an addition to the facility in the amount of \$2,800,314.

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SUPPLEMENTARY FINANCIAL INFORMATION

INGHAM COUNTY MEDICAL CARE FACILITY

Schedule of Net Patient Revenues For the Year Ended December 31, 2004

Daily Room Services

Medicaid	\$ 8,364,472
Medicare	1,253,301
Other	<u>2,281,155</u>

Total daily room services	<u>11,898,928</u>
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Ancillary Services

Pharmacy and IV	282,734
Physical therapy	860,733
Occupational therapy	743,397
Speech therapy	495,096
Medical supplies	<u>30,441</u>

Total ancillary services	<u>2,412,401</u>
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Total patient revenue	14,311,329
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Revenue additions (deductions)

Provision for contractual discounts	<u>(1,138,721)</u>
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Net patient revenues	<u><u>\$ 13,172,608</u></u>
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INGHAM COUNTY MEDICAL CARE FACILITY
Schedule of Operating Expenses
For the Year Ended December 31, 2004

	<u>Salaries</u>	<u>Other</u>	<u>Total</u>
Administration	\$ 312,827	\$ 342,717	\$ 655,544
Human resources	102,827	57,988	160,815
Maintenance	120,877	420,023	540,900
Laundry	210,849	37,763	248,612
Housekeeping	322,385	33,265	355,650
 Dietary	 590,215	 452,362	 1,042,577
Central supply	35,584	414	35,998
Pharmacy	-	263,099	263,099
Nursing	4,755,715	512,141	5,267,856
Physical therapy	6,660	373,971	380,631
 Occupational therapy	 1,960	 291,098	 293,058
Dementia	69,191	1,681	70,872
Psychosocial services	295,751	21,773	317,524
Admissions and marketing	87,735	11,521	99,256
Vehicles	-	590	590
 Physician services	 -	 16,581	 16,581
Nurse aide training	104,070	25,201	129,271
In-service education	41,813	704	42,517
Speech therapy	-	162,534	162,534
 Donated fund expense	 -	 2,430	 2,430
Fringe benefits	-	2,117,307	2,117,307
Depreciation	-	362,136	362,136
 Total expenses	 <u><u>\$ 7,058,459</u></u>	 <u><u>\$ 5,507,299</u></u>	 <u><u>\$ 12,565,758</u></u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



March 23, 2005

To the Human Services Board of the
Ingham County Medical Care Facility
Okemos, Michigan

We have audited the financial statements of the Ingham County Medical Care Facility for the year ended December 31, 2004, and have issued our report thereon dated March 23, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 12, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Ingham County Medical Care Facility. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ingham County Medical Care Facility are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Ingham County Medical Care Facility during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims is estimated based on historical trends. We evaluated the key factors and assumptions used in developing the estimated liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Ingham County Medical Care Facility's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ingham County Medical Care Facility, either individually or in the aggregate, indicate matters that could have a significant effect on the Ingham County Medical Care Facility's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ingham County Medical Care Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Human Services Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Ingham County Medical Care Facility

Comments and Recommendations

For the Year Ended December 31, 2004

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated March 23, 2005 on the financial statements of the Ingham County Medical Care Facility.

Management's Use of Estimates and Reconciliation to County's Records

In preparing year-end adjustments, management estimates adjustments for several key items for which more accurate records are available shortly after year-end. In addition, reconciling items are included in accounts including cash held at the County and retirement payable that must agree with the records of the County. These estimates and reconciling items result in audit adjustments as well as passed adjustments (see schedule included in this communication) that affect the Facility's report. We recommend that management analyze these year-end adjustments and consider making adjustments to their records prior to the audit to more accurately reflect the Facility's financial position and assure that the report properly reconciles with records of the County.

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